

## TEACHERS' RETIREMENT BOARD

### REGULAR MEETING

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SUBJECT: 403 (b) Update

ITEM NUMBER: 10

ATTACHMENT(S):   

ACTION:   

DATE OF MEETING: September 3, 1998

INFORMATION:   X  

PRESENTER: Ms. DuCray-Morrill

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The current CalSTRS 403(b) Program (Program) was implemented in July 1995. Through a competitive process, State Street Corporation was selected as the third party administrator for the Program. The Program currently includes three investment options: 1) S&P 500 index, 2) money market, and 3) self-managed account. In the self-managed option, the participants have access to over 1,200 mutual funds through a brokerage account. Very soon, three additional index options will be added. They are small capitalization stocks, international stocks, and intermediate government/corporate bonds.

The preliminary information on program growth from June 30, 1997 to June 30, 1998 shows increases in 1) the number of participants from 1,010 to 1,498, 2) the number of districts from 301 to 362, and 3) dollars invested from 19.386 million to 25.411 million.

The approximate investment allocation is as follows:

55%	Money Market
40%	S&P 500 Index
5%	Self Managed Account

Initially, the State Teachers' Retirement System (STRS) was hindered in that many counties/districts required "hold harmless" agreements as a condition of offering the STRS 403(b) Program. To facilitate this problem, STRS developed a standard agreement which was adopted by the Teachers' Retirement Board. Generally, the counties/districts have accepted this document, although some still are adamant that their own document must prevail. In addition, last year we worked with some of the larger counties who had standard agreements, such as Los Angeles County Office of Education, and negotiated an agreement that was acceptable to both parties. Various other counties/districts have adopted this version of the agreement. 125 of the 362 participating districts now have signed "hold harmless" agreements. This effort is coming to fruition with increased enrollment numbers.

State Street Corporation, as the third party administrator, is responsible for promoting the Program. The marketing plan includes direct mailing campaigns to specific school districts, advertisements in teacher publications, and Program seminars as required. State Street also participates in the STRS Mid-Career Seminars speaking on the subject of 403(b) plans in general. Additionally, articles with updates on the Program are included in the semi-annual STRS Bulletin.

Because the CalSTRS 403(b) Program is independent of the core STRS defined benefit plan, we are limited in our ability to expend trust funds to promote the plan. Education Code Section 24001 (b)(7) specifically provides that "... all of the system's costs of administering the deferred compensation plans shall be recovered in the plans or assets of the Teachers' Deferred Compensation Fund in a manner acceptable to the board." This places us at a great disadvantage to the many private sector plans which are our direct competitors for 403(b) business and have considerable marketing ability.

It should also be noted that Education Code Section 24951 provides that if the rate of participation is less than two percent of the active membership upon completion of the initial five years of administration, the board may elect to terminate the Program. Although participation is growing, the current participation level is 0.41 percent. Staff is developing an updated marketing plan to attempt to accelerate the increase in the participation level. Future reports will include information on 403(b) promotion activities.